



BUDGET COMMITTEE



Judd Gregg, Ranking Member
<http://budget.senate.gov/republican>

Contact: Betsy Holahan (202)224-6011
Jeff Turcotte (202)224-2574

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Opening Statement from Senator Judd Gregg (partial/unofficial transcript)

Senate Budget Committee Hearing on the President's Fiscal Year 2008 Budget and Revenue Proposals

**Witness: Honorable Henry M. Paulson, Jr.,
Secretary, Department of Treasury**

I also wish to welcome the Secretary of the Treasury, who is already, in a short tenure, been a very constructive force, in my opinion, for trying to move forward the debate and discussion as to how we resolve our long-term fiscal issues -- which as the Chairman has appropriately, and has often, and has effectively alluded to, part of the gravamen of the problems for our nation as we move into the future relative to policies that don't involve terrorism -- if you're looking for the biggest problem we have it's the fact that we're going to pass onto our children a government they can't afford because it will simply be far too expensive to support the entitlement programs for the baby boom generation.

But I also think that there's been not enough focus on how good things are doing right now in many places and in many ways. We have now had 21 straight months of economic recovery in this country -- that's good news, these are significant growth numbers and they are continuing.

The result of this recovery has meant that employment has expanded for 41 straight months and that we've added over 7 million jobs -- that's a lot of people with a much better lifestyle because they've got a job that's in most cases a very good job and they're generating income and as a result we've seen that the unemployment rate as a percentage is lower now than it has been in almost all of the prior major recoveries. So we're actually getting a larger amount of employment, and we're getting a very strong recovery in this economy.

Real wages are up over the Clinton years -- that's a very important statistic. We're hearing a lot about wage gap and we're hearing a lot about the middle class being squeezed but the fact that we've had an expansion now for over 30 months, and an employment increase for over 41 months, and that those jobs are real wage benefits to

working Americans – that's good, that's what you want. You don't want the opposite, which is a negative situation.

The growth in revenues has exceeded projections now in the last four years. And the fact is that its not only exceeded projections, it has essentially blown through the projections from CBO during the last four years, and OMB, and we have seen in the last three years the three largest years of increase in revenue growth in the history of our country over a three year period. That's very significant, and it's a reflection of the growth of the economy, of course, and more people having jobs. And again, growth is exceeding projected growth for the last three years.

The capital gains -- the Chairman says that cutting taxes don't generate more revenue. Well, we cut the capital gains rate and we generated a heck of a lot of revenue, and its common sense. It may be that economists tell you that cutting rates don't generate more revenue but common sense tells you that when you cut the capital gains rate you're going to generate some significant revenues. Because people who have locked up assets that they're not willing to sell because they don't want to pay a high tax rates will start to sell those assets and the ancillary affect, the unintended consequence affect, is that revenue, once its freed up, is then reinvested in much more productive capital activity, much more productive things, and as a result you generate more economic activity which creates more jobs which is the bottom line which we're aiming at – more jobs and a better economy.

And there's another point that should be made. Not only did the tax cuts, which the President put in place, generate this economic recovery, which has gone on now for over 30 months, which has created over 7 million jobs, which has generated huge revenues to the federal treasury – those revenues, by the way, today are exceeding the national average. Traditionally we get 18.2% of Gross National Product as federal revenues – now we're up to almost 18.4% of Gross National Product as revenues.

So not only by cutting the rates and putting a fair tax law into place, where people are willing to pay their taxes and go out and take risks, be entrepreneurs, create jobs, and as a result of doing that, create more revenues for the federal government, not only has that created a better revenue stream for the federal government, but at the same time the President's tax cuts have actually created a more progressive tax system which is never talked about, regrettably, by folks on the other side of the aisle. They're always talking about how high-income people are always getting a better tax benefit under this Administration. Well in fact, high-income people are paying a higher share of the income tax burden in America today than they paid in the Clinton years. 85% of the tax burden today is being paid by the top 20% of wage earners – of people with income. Whereas under the Clinton years, those top 20% of income individuals only paid 81% of the taxes. So we've got the higher income people paying more in taxes as a percentage of what we collect.

The low-income individuals in this country, who don't pay any taxes -- the bottom 40% who don't pay any income taxes – they pay taxes they pay the payroll tax – but don't pay

any income taxes -- that bottom 40% who receive money back through the Earned Income Tax Credit are actually receiving twice as much back today as they received under the Clinton years. So what we have is a tax law which is significantly more progressive -- where the high income individuals are paying more of the tax burden, low income individuals are getting more benefit from the tax law, then under the Clinton years. And at the same time, we're generating dramatically more revenues than we historically have generated, and especially in the last three years.

The practical effect of that is the deficit is going down. Its going down not because we're spending less money but because we're generating more revenues -- we've got an expanding economy and we're creating more jobs and that's all good news. I think we ought to talk about it a little bit, so that's why I took these few minutes to talk about it. And I appreciate the Secretary of the Treasury being here.

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